Inflationary Pressure Has Abated In Some Key Countries

Global Inflation Rates

View from the Observation Deck

1. Several key central banks around the globe tightened monetary policy from 2010-2011 in an effort to curb rising inflation.

2. Short-term benchmark lending rates in Brazil and India rose substantially. Brazil’s Selic Target Rate, for one, rose from 8.75% (April 2010) to a peak of 12.50% (July 2011).

3. Some of the inflationary pressure these central bankers were fighting came in the form of higher commodity prices, fueled to some degree by a steep decline in the value of the U.S. dollar. Commodities are priced in U.S. dollars.

4. The U.S. dollar fell 14.17% (U.S. Dollar Index/DXY) from 6/7/10 to 11/4/10, according to Bloomberg. Commodity prices, as measured by the Thomson Reuters/Jefferies CRB index, surged 24.92% over that same span.

5. The combination of slower GDP growth in China (7% annualized down from 9-10%), the economic weakness stemming from the European sovereign debt crisis and stronger U.S. dollar has helped temper inflation over the past 12 months.

6. The U.S. dollar appreciated 5.86% (U.S. Dollar Index/DXY) from 11/4/10 to 12/10/12.

7. With the exception of India and Russia (see chart), inflationary pressures have declined enough to allow some central banks to re-adopt pro-growth monetary policies.

8. Brazil’s Selic Target Rate has declined from 12.50% (August 2011) to 7.25% today. Stay tuned.